CAPITAL PLANNING ADVISORY BOARD

Minutes of the 1st Meeting
of the 2002 Calendar Year

July 10, 2002

The 1st meeting of the Capital Planning Advisory Board of the 2002 calendar year was held on Wednesday, July 10, 2002, at 9:00 AM, in the Department for Libraries and Archives Activity Room in Frankfort. Representative Perry Clark, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Perry Clark, Chair; Bill Hintze, Vice Chair; Senator Albert Robinson; Susan Clary; Sherron Jackson; Lou Karibo; Cicely Lambert; Glenn Mitchell; Norma Northern; and Garlan Vanhook.

Guests: Armond Russ, Commissioner, and Jamie Link, Deputy Commissioner, Department for Facilities Management; Rick Martin, Vice President, OnLine, Inc.; James Nelson, Commissioner and State Librarian, and Richard Belding, Director, Public Records Division, Kentucky Department for Libraries and Archives.

LRC Staff: Pat Ingram, Staff Administrator; Mary Lynn Collins; Nancy Osborne; and Dawn Groves.

Chairman Clark welcomed Sherron Jackson, Senior Associate for Equal Employment Opportunity and Finance for the Council on Postsecondary Education, as an executive branch appointee to the Board. Mr. Jackson replaces Transportation Cabinet Secretary James Codell.

Chairman Clark congratulated Mr. Hintze for being the recipient of the Gloria Timmer award from the National Association of State Budget Officers.

Next, Chairman Clark thanked Commissioner Jim Nelson and staff of the Department for Libraries and Archives for hosting the July meeting. He noted that the Commissioner would be making a presentation concerning the agency's space needs and that there would be a tour of the facility afterwards.

Mr. Hintze's motion to approve the minutes of the October 26, 2001, meeting was seconded by Mr. Mitchell and approved by voice vote.

Chairman Clark asked the Board's Staff Administrator Pat Ingram to review the information items included in the meeting folders. Ms. Ingram said the first information item addressed legislative changes that were recommended by the Board in the 2002-2008 Statewide Capital Improvements Plan. She noted that six recommendations were made but the two that affected the Department for Facilities Management were included in the same bill, House Bill 286, resulting in five bills being introduced. Only House Bill 286 made it completely through the legislative process. That legislation put in statute the Department's responsibility for the executive branch facilities database and more clearly defined the Department's role relative to state office buildings as well as other state buildings.

Ms. Ingram stated that Chairman Clark has already begun the process to have the other bills introduced again for consideration during the 2003 Regular Session. She noted that one of the bills that would have put into statute the definition of an "information technology system" can be done through the administrative regulation process. The Governor's Office for Technology (GOT) has started that process.

The second Information Item addressed other capital-related legislation enacted by the 2002 General Assembly. Ms. Ingram noted that Senate Bill 61 was based on recommendations of the Energy Efficiency Solutions Team which Mr. Mitchell reported on last year and was consistent with the Board's general recommendation supporting administrative and legislative changes that would allow for greater use of energy savings performance contracts.

The third Information Item addressed two state government financing issues. It noted that on June 27 the third budget reduction order for the 2001-2002 fiscal year (FY) was issued. Ms. Ingram noted that the remaining balance of the Budget Reserve Trust Fund, $120 million, was taken to address the anticipated additional $150 million revenue shortfall. The item also addressed the FY02/03 executive spending plan as presented by the Governor June 26. Although no specific projects were listed, the spending plan indicates that all projects included in House Bill 1 have been included except those to be financed by the issuance of state or agency bonds. House Bill 1 was the executive branch budget proposed by the Governor in the April 2002 Special Session.

The fourth Information Item reported on Executive Order 2002-759, dated July 1, which transferred five Cabinet for Families and Children office buildings to the Finance and Administration Cabinet. Four buildings have already been transferred with the final building, in Ashland, to be transferred by year's end. This is consistent with the Board's previous recommendations that the Department for Facilities Management should be operating state office buildings. Also included was an update on the transfer of the child day care centers from the Cabinet for Families and Children to the local agencies that are operating them, which was also a previous Board recommendation. The Cabinet reports that it is still in the process of transferring the remaining four facilities under its jurisdiction.

Chairman Clark invited Mr. Hintze to provide a further update on budget issues. Mr. Hintze noted that Kentucky is in an unprecedented situation by not having a legislatively-enacted budget 10 days into the new fiscal year. He noted Kentucky is one of a group of states being reviewed by credit rating agencies and bond holders due to their financial situation. Mr. Hintze stated that the Governor promulgated a spending plan through an executive emergency order at the close of FY02 in order for governmental operations to continue uninterrupted into FY03. While there is no clear constitutional or statutory provision that addresses this situation, the Governor relied upon his "chief magistrate authority" to provide public services for the safety, health and well being of Kentucky's citizens. The issue is currently under court consideration to resolve any questions or conflicts regarding how the Governor has proceeded.

Mr. Hintze said part of the executive order was a spending plan for FY03, which was modeled after House Bill 1 (HB 1) as considered but not enacted by the 2002 April Special Session With few exceptions, HB 1 was a compilation of both the House and Senate actions in the 2002 Regular Session.

Relative to the exclusion of bond projects, Mr. Hintze said there were $351 million of bond projects in the budget upon final adjournment of the 2002 Session. They included Bucks for Brains, new school facilities construction, and several other projects that were very important to state agencies and to the public. Mr. Hintze said some are critically needed maintenance projects initially recommended to be funded with cash from state construction accounts but subsequently changed to bond-supported to make cash available mainly for elementary and secondary education. Some of the projects may rise to a high priority need where they will have to be reconsidered if there is no enacted budget. However, Mr. Hintze said that for the most part bonds were authorized to be sold only after January 1, 2003, with debt service not required until the second year of the biennium. He noted that the Governor's spending plan is for FY03 only and presumes legislative enactment of a budget during this fiscal year in which the bond projects will be substantially reinstated.

Mr. Hintze stated that one day after the spending plan was offered, a third budget reduction order for FY02 was executed. It was the fifth reduction order of the 2000-2002 biennium. The additional shortfall estimated for FY02 at that time was $150 million, bringing the total for FY02 to approximately $620 million. In order to end the fiscal year with balanced books pursuant to the constitutional mandate, the major action was to take the $120 million remaining in the Budget Reserve Trust Fund. Also, transfers were made to the General Fund that were anticipated as current year transfers in HB 1. On July 9, the Governor decided not to proceed with one of the proposed transfers, that is the transfer of the remaining balances ($14 million) in the elementary and secondary education flexible health insurance spending accounts. Mr. Hintze noted the budget reduction order is for a larger sum than just the revenue shortfall because of the need to cover unbudgeted spending (chiefly due to natural disasters) that is normally paid from the state surplus. Other actions in the order are to align some programs in accordance with actual receipts such as the Coal Severance Tax and other mineral-related severance programs.

Mr. Hintze said the fourth cut-back order for FY02 would be issued the following week. This "clean-up" order will address three things: the exact amount of the end of year shortfall which was approximately $155 million (rather than $150 million), prospective lapses that will be substituted for the flexible spending money that was to be transferred, and FY02 expenses that must be paid during the close-out period.

Mr. Hintze said it has been a rough year for all states financially. Credit ratings for some states have already been downgraded, and Kentucky is on the verge of a downgrade based on a Standard & Poor's report. He said an offset is that Kentucky has been upgraded in the past two to four years by all credit rating agencies, so the state may simply lose the ground that was gained during that time. This will not be known until the state takes a bond issue to the market There will be no new issues in the absence of a budget, but some refinancings and some issues previously authorized for courthouse construction projects are proceeding.

Senator Robinson asked if the rating agencies' biggest concern is the lack of a budget or the revenue shortfall. Mr. Hintze said both are issues as well as the lack of a Budget Reserve Trust Fund.

Senator Robinson noted the issue seemed to be that projections were not being met rather than a decline in revenues. Mr. Hintze agreed that had been the case, but as of the end of FY02 there was an absolute decrease in revenue collections compared to FY01. This situation has not happened in the past 35 years. Tax collections were down across the board (sales, income, corporate, etc.).

In response to Senator Robinson's further inquiry, Mr. Hintze said revenues were approximately $94 million less in FY02 than in FY01. Senator Robinson noted that the growth of FY01 versus FY00 had been approximately $80 million.

Next, Ms. Lambert updated the Board on the executive order issued by the Chief Justice at the end of the fiscal year. HB 3 from the April Special Session was the template for the Judicial Branch's spending plan for FY03 and the basis for the continuing operations of the Court of Justice. That bill, which was passed by both chambers but not enacted, was similar in nearly all aspects except for some transfers between appropriation units. She said at the moment the Judicial Branch is not involved in the budget lawsuit, but they have a motion to intervene currently before Judge Graham.

Chairman Clark asked Mr. Hintze about the prognosis for the economy. Mr. Hintze said some national headlines indicate the recession has broken and economic activity has increased. However, in Kentucky and other states, tax collections have not shown any signs of recovery to date. Projections for the next biennium call for very modest growth, including 3.3% in FY03 rather than the 5% that would be expected normally. This will need to be monitored, but it does not appear to be as bad as the previous fiscal year.

Chairman Clark asked if the problem was economic inactivity rather than the taxing structure. Mr. Hintze said it was both and that some of the historical balance of the tax structure between the funding sectors (sales, income, corporate) has been lost.

Chairman Clark thanked Mr. Hintze and Ms. Lambert for their comments. He then asked Ms. Ingram to review the staff recommendations relative to the 2004-2010 capital planning instructions. Ms. Ingram said the agency plans are due April 15, 2003. She said typically the staff brings any recommendations for significant changes to the previous plan's instructions to the Board in the summer. Then, detailed instructions and forms are prepared for the Board's review and approval at a fall meeting. For the 2004-2010 plans, there are only a few proposed changes. First, a reorganization of plan contents is suggested. All items from the previous plan are retained but grouped into two major sections. The "Background" section would provide an understanding of the agency and a context in which to review capital needs. Information in the "Plan" section would report capital-related needs and how the agency proposes to address them.

Second, staff proposes that agencies be required to provide a brief description of how the facilities management function is handled within the organization. This is the only new information proposed to be included in the plan.

The third and fourth items were recommendations that the planning horizons for information technology (IT) and equipment projects be expanded to cover all three biennia of the planning period. Relative to IT, this is consistent with the recommendation made to the Board by the state's Chief Information Officer last year. Postsecondary education scientific or research equipment would continue to be submitted only for the first biennium of the planning period.

In response to Mr. Mitchell's questions, Ms. Ingram said this should add few projects to the plans since most equipment is postsecondary items that would continue to be excluded. She said having consistency in the six-year plan was the intent. Mr. Mitchell expressed concern about the ability of agencies to project equipment needs four to six years in the future but stated this was acceptable as long as an agency is not penalized for obtaining needed equipment that has not been listed in the plan.

Mr. Hintze made a motion, which was seconded by Mr. Jackson, for staff to proceed with instructions and forms based on these recommendations. The motion carried by voice vote.

Next, Ms. Ingram reviewed the agenda item addressing the project recommendations development process. She said in the past the Board has used a variety of approaches. However, other than stating that maintenance generally is its highest priority, no specific criteria have been used to evaluate individual projects. She indicated some board members have expressed an interest in having some criteria to use. Ms. Ingram said staff has attempted to identify other states with project review systems or criteria that might transfer or be modified for the Board's use. Three states currently use essentially the same system. The system was developed in Minnesota and is used in Rhode Island and Wyoming. Each project is evaluated and assigned a series of numerical scores depending on how closely it meets each of several criteria. In the scoring, some criteria are weighted more heavily than others. The scores are then totaled to obtain an overall project score. Some of the factors considered are if the project addresses a critical life safety emergency, a currently pending legal liability or a prior binding commitment; what priority has the agency assigned to the project; how much non-state funding is involved; to what extent does the project address asset management; and to what extent does the project result in operating savings or efficiencies.

Ms. Ingram said it is probably not possible or appropriate for the Board to try to use this specific scoring system, but it may be possible to modify the system and some of the criteria to establish a system that might be helpful to the Board in making its project recommendations. Ms. Ingram pointed out that this is not a substitute for the decision-making process but is designed to be an input into the process. Ms. Ingram stated that, if the Board is interested in pursuing this approach, it needs to be developed over the next few months so that the agencies will know some of the factors to be considered and needed in the descriptions of their projects.

Ms. Northern said she supports the general concept but it needs to be modified to be applicable to Kentucky. Chairman Clark asked Mr. Jackson to work with staff on some issues of concern to postsecondary education. Mr. Jackson moved and Ms. Northern seconded the motion to direct staff to draft a project scoring system based on the Minnesota approach. The motion carried by voice vote.

Chairman Clark said the Finance Cabinet had been asked to provide updates on two projects--implementation of a real properties/facilities management database and the state leasing and space utilization study. Department for Facilities Management Commissioner Armond Russ said the Space Utilization Task Force is comprised of senior facilities managers from the various cabinets and has operated based on the Empower Kentucky approach. It is focusing on the utilization of office space, only, in state-owned and state-leased buildings.

The Task Force is looking at three time intervals: short-range initiatives that use low-cost or no-cost approaches to generate immediate savings ("quick wins"); intermediate-range initiatives that involve investing state funds only to the extent that they can be recovered through savings by the end of the biennium; and long-range initiatives that will significantly reduce the cost of state office space over the next four to 10 years.

Commissioner Russ said the agencies are being asked to examine both potential consolidation and regionalization of offices. Consolidation involves combining offices of various agencies within a single county into the same building which could save on the cost of copiers, break rooms, phone systems, and other office expenses. Regionalization involves combining agency services from multiple counties into a single county. This recognizes that transportation systems are better than when the offices were initially established, and that agencies often do not have resources to house some specialists in every county and are already referring clients from one location to another. Regionalization would be a long-range approach.

Recommendations for actions that may result in "quick wins" were provided to the Cabinets in May. They include encouraging energy conservation, reviewing maintenance contracts to ensure that the need is consistent with the services being provided, establishing clean-up days to free up space that could be utilized for other purposes, encouraging state park facility usage rather than renting meeting space or motel rooms from private vendors, creating a conference space database so that agencies are aware of such space that is available in existing state-owned or leased facilities, and auditing existing phone lines and other metered services to ensure that the need is consistent with the costs being incurred.

Relative to intermediate-range actions to address the underutilization of space, the Task Force is reviewing state-leased or owned properties that meet the following criteria: greater than 300 SF per employee, less than 75 percent of the space being used based on the original intent, and comparison of the actual number of people to a full-time equivalent calculation based upon the amount of time employees spend in the office. Relative to this last criterion, Commissioner Russ noted that in situations where an employee is not in the office every day, it may be possible to implement a "hoteling" approach where the same space is shared by more than one employee.

Currently, each Cabinet is reviewing data to verify its accuracy, to justify the variance for properties meeting the aforementioned criteria, to analyze consolidation opportunities within the Cabinet, and to establish a list of agencies that are inappropriate for co-location with each other.

The plan is to have a report of interim-range recommendations on better space utilization and consolidation opportunities in November and to have a report of long-range recommendations in January 2003.

Mr. Hintze said the study is good management and good stewardship of state funds. In response to Mr. Hintze's questions, Commissioner Russ said the Task Force has the data to look at technical items such as the location and amount of space being used by an agency, but it does not have the programmatic knowledge needed to understand why specific situations may exist. Therefore, such explanations are being provided by individual agencies. The information is being recorded and retained. They have not yet decided how to document the commitments for changes that are being made by the agencies and how they are being implemented.

Mr. Vanhook asked if the Task Force had guidelines or a form to ensure that the agencies are providing consistent information in a consistent format. Commissioner Russ said there was a standardized questionnaire on how the building is being used currently. This information is then compared to original information on file to identify changes that have occurred.

Mr. Mitchell noted that HB 288, which did not pass in the 2002 Session, was vital for the Task Force recommendations to work. HB 288 would have allowed allocations from the state's Capital Construction and Equipment Purchase Contingency Fund to pay for agency moving expenses when savings or efficiencies would result. Mr. Mitchell urged the Board to again go on record as supporting the concept. Chairman Clark agreed and stated that he had already prefiled the same legislation for the 2003 legislative Session.

Deputy Commissioner of Facilities Management Jamie Link and Rick Martin, Vice President of OnLine, Inc., were introduced to update the Committee on the status of the real properties/facilities management database. Commissioner Russ noted they usually just refer to the system as Archibus since that is the software program being used. Deputy Commissioner Link said the Administrative Office of the Courts (AOC) implemented Archibus several months ago for the Judicial Branch, and the Department for Facilities Management (DFM) is now implementing it for the executive branch. DFM has contracted with Online, Inc. in Memphis, who also assisted the State of Tennessee with implementation of the product. Tennessee paid for development of a capital construction package that was not part of the original system and is giving it to Kentucky; however, it will require some customization. Kentucky has entered into a master agreement with CFI, a software vendor, to purchase the software. The initial modules have been purchased. The master agreement is set up so that other state agencies can purchase their modules in the future as the system is implemented government-wide. Currently, DFM is working with OnLine to import all existing CAD drawings and information from the current Property Inventory Control System (PICS) database into

Archibus. A Building Assessment Form is being designed that will allow agencies to do an initial self-assessment of their facilities. The form will be available on the Internet. Once the information is received, follow ups by professionals in the DFM Division of Engineering or a consultant will address any questions to ensure the data are accurate.

Deputy Commissioner Link stated that later they will give the Board a time schedule on acquiring additional modules and providing the system to agencies and universities. It will also address coordination with AOC to centralize the data.

Mr. Martin explained that Archibus is a computer-aided facility management database used to track assets. It has 100,000 users world-wide, managing 1.4 million buildings containing 16 billion square feet. The system is modular. Kentucky will use the Space Management module to help optimize space use within a facility, identify rentable and leasable areas, and calculate space cost and charge-backs. Vacant spaces will be readily identifiable. The Real Property and Lease Management module will also be used by Kentucky. The current database will be downloaded to it, but there will be greater reporting and analysis capabilities. Additionally because it is closely related to the new capital construction module, Kentucky is acquiring the Building Operations module that addresses work orders and preventive maintenance. Finally, Kentucky is also obtaining the Design Management and CAD overlay module. Other modules available but not being acquired by Kentucky are Furniture and Equipment Management, Telecommunications and Cable Management, Strategic Master Planning, Room Reservations, Hoteling, and Emergency Preparedness.

Commissioner Russ said some agencies, especially the universities, would like more in-depth information so they will have the ability to purchase additional modules more tailored to their specific needs.

Mr. Mitchell asked if the system will integrate with the MARS financial system. Deputy Commissioner Link said it would and that Mr. Martin is working with the manufacturers and technical staff on that issue.

Commissioner Russ told the Board that one of the biggest obstacles is the lack of sufficient staff to do training and rollout Archibus to the agencies.

Chairman Clark thanked the presenters. He then asked Commissioner James Nelson, Kentucky Department for Libraries and Archives (KDLA), to review the agency's functions and storage needs. Mr. Nelson said the agency's mission is securing government information. This includes ensuring accessibility, protecting privacy, and being sure business operations are sustained in the event of disaster. Archives and records services is an enterprise-wide responsibility, not just a KDLA concern. The agency serves more than 135 agencies in the Executive, Legislative, and Judicial branches; and all government offices in 120 counties, including 1,400 special districts, 435 city and town governments and 176 school districts; and eight public universities.

Three key functions of KDLA are state archives services (long-term records management), imaging services and document reformatting, and State Records Center services for short-term records. Commissioner Nelson stated that the State Archives is at a maximum storage capacity yet every day new archival records are created. He noted that these records document agency work, protect citizens' rights, or have other continuing legal, fiscal or administrative value. Commissioner Nelson said that KDLA has a systematic process to identify records of archival value noting that only three to five percent of records actually need to be kept permanently. This is the focus of the proposed new facility.

Relating to Commissioner Russ' presentation on space utilization, Commissioner Nelson said every $1 spent on KDLA records management saves $3 in agency lease costs, etc.

Commissioner Nelson said KDLA has regularly documented the need for additional records storage capacity through previous proposals to the Board and budget requests. To refine their plans, KDLA hired a consultant in 2001-02. He recommended developing a digital archives, expanding format conversion services, and continued maintenance of paper records. Commissioner Nelson pointed out that KDLA has progressed on several fronts. A new Electronic Records Working Group has been initiated with GOT to help advance systematic management of electronic records, the Document Management Digitization System (DMDS) is being implemented, and a new General Schedule for Electronic and Related Records has been approved. Commissioner Nelson said there is a 25-year accumulation of paper records waiting to be addressed. Creation of a digital archives offers promise for the future, but paper records of permanent value will continue to need secure storage. Additionally, some information is lost when electronic records are migrated. Commissioner Nelson referenced a handout that provides a "quick view" of the records management function. It also identified recent archival construction in other states as well as the previous Kentucky proposals.

Commissioner Nelson said expanding KDLA's facility will allow the Commonwealth to preserve and make accessible archival records in multiple formats, smooth the transition from paper to electronic record, expand access to government's digital records, and train public employees to effectively manage government records in new formats.

Chairman Clark thanked Commissioner Nelson for his presentation. He stated that following the Board meeting the members would tour the KDLA facility.

Chairman Clark informed the Board that the next meeting is scheduled for Friday, September 20 in Hopkinsville, and will focus on a tour of several state facilities in the area.

There being no further business, Mr. Karibo's motion to adjourn was seconded by Mr. Vanhook and approved by voice vote. The meeting was adjourned at 11:06 a.m.